

VZCZCXRO4046
PP RUEHBC RUEHDE RUEHKUK RUEHROV
DE RUEHAM #3472/01 2311317
ZNR UUUUU ZZH
P 191317Z AUG 07
FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC PRIORITY 9958
INFO RUEHEE/ARAB LEAGUE COLLECTIVE PRIORITY
RUEHTA/AMEMBASSY ALMATY PRIORITY 0031
RUEHAK/AMEMBASSY ANKARA PRIORITY 0544
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0131
RUEHRL/AMEMBASSY BERLIN PRIORITY 0313
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0250
RUEHOT/AMEMBASSY OTTAWA PRIORITY 0213
RUEHPF/AMEMBASSY PHNOM PENH PRIORITY 0040
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 0731
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHC/DEPT OF LABOR WASHDC PRIORITY

UNCLAS SECTION 01 OF 04 AMMAN 003472

SIPDIS

SENSITIVE
SIPDIS

STATE FOR NEA/ELA (G. RANA), EEB/TPP/ABT (G. CLEMENTS)
COMMERCE FOR ITA/OTEXA (M. D'ANDREA)
STATE PASS TO USTR (N. SAUMS, A. ROSENBERG, C. MILLER)

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [ELAB](#) [EAID](#) [IS](#) [IZ](#) [JO](#)

SUBJECT: JORDAN SEES SLIGHT INCREASE IN TRADE DEFICIT AND
DECREASE IN QIZ EXPORTS TO U.S. DURING FIRST HALF 2007

REF: A. AMMAN 2211
[1](#)B. AMMAN 434

[1](#)1. (SBU) Summary: Jordan saw its trade deficit widen slightly to USD 3.4 billion during the first half of 2007, due to imports that more than doubled rising exports. Despite an overall increase in total national exports, the Ministry of Industry and Trade (MOIT) reported that apparel exports to the United States from Jordan's Qualifying Industrial Zones (QIZs) decreased 6 percent to USD 520 million from January to June 2007, compared to the same period last year. Some blame the drop on a cutback in orders from buyers due to Jordan's labor issues and lack of competitiveness. Others have argued that the work is there, but workers are not, citing lack of labor as a major impediment to growth of the garment sector in Jordan. The decline may also reflect a period of adjustment as apparel factories adapt to new labor compliance procedures and attempt to move to higher-end products. Another emerging and desirable trend is a natural shift to exporting under the U.S.-Jordan Free Trade Agreement (FTA). End Summary.

Widening Trade Deficit in 2007

[1](#)2. (U) Jordan's Department of Statistics (DOS) reported August 13 the following key trade figures for January to June 2007, and growth rates over the same period in 2006:

-- Total Exports: JD 1.976 billion (\$2.79 billion), representing a 19.1 percent increase. This figure includes JD 400.9 million (\$566 million) in re-exports and JD 1.575 billion (\$2.235 billion) in total national exports.

-- Total Imports: JD 4.359 billion (\$6.157 billion), representing a 8.1 percent increase.

-- Trade Deficit: JD 2.383 billion (\$3.366 billion), representing a 0.3 percent increase.

[1](#)3. (U) The United States has remained the main importer of Jordanian products, accounting for approximately 25.8 percent (\$575 million) of Jordan's total national exports during the

first half of 2007. Garments made up 90.2 percent of U.S. imports from Jordan. Iraq ranked second, importing 10.7 percent of total national exports, mainly vegetables, cigarettes, liqueurs, beverages, vinegar, aluminum, and plastic. Saudi Arabia placed third, importing primarily pharmaceuticals, machinery, appliances, non-organic chemical products, iron, and paper. India came next as an importer of Jordan's phosphates, fertilizers, potash and phosphoric acid.

14. (U) Jordan's top import was crude oil, mainly from Saudi Arabia. Other principal exporters to Jordan during this period included China (cloth, clothing and accessories), Germany (automobiles and their parts), and Egypt (natural gas, benzene, electrical energy, rice and ceramics). According to DOS, Jordanian imports from the U.S. for the first half of 2007 totaled USD 282.5 million, representing an 8.3 percent increase over the same period in 2006.

15. (U) To improve the trade balance, Jordan has been pursuing free trade agreements with several countries, including Turkey, Canada, and Kazakhstan. Minister of Industry and Trade Salem Khaza'aleh has stated that the agreements aim to accelerate Jordan's free trade drive and expand trade partnerships with various regions through preferential access of goods and services, accumulation of rules of origin and removal of non-tariff barriers. The Cabinet also recently approved the continued implementation of the World Trade Organization's subsidies program, under which export revenues will be exempted from income tax until 2015.

QIZ Exports on a Downward Slope

AMMAN 00003472 002 OF 004

16. (U) Despite an overall increase in total national exports, the Ministry of Industry and Trade (MOIT) reported a 6.1 percent drop in Jordanian exports from the QIZs to USD 520 million during the period January to June 2007 from USD 540 million during the same period in 2006. These figures include USD 354.9 million in exports to the United States under the QIZ agreement, USD 141.9 million in exports to the United States under the FTA agreement, USD 14.3 million in exports to Israel, USD 1.7 million in exports to other Arab countries, and USD 7.6 million in exports to other countries.

Hassan Al-Nsour, head of the MOIT QIZ unit, cautioned that it is too early to tell whether the drop in QIZ exports is an overall trend given a 12 percent monthly growth rate in April 2007 compared to April 2006, indicating that seasonal factors in the garment industry may skew results in the first half of the year.

QIZ to FTA

17. (U) Although MOIT figures vary slightly from U.S. International Trade Commission (USITC) figures, primarily due to lags in shipping times, USITC figures confirm the overall trend of a decrease in apparel exports, specifically a 6.6 percent drop to USD 537 million for the period January to June 2007. USITC data for that period also indicates, however, that apparel exports under the FTA grew 13.5 percent to USD 115 million compared to the first half of 2006. Meanwhile apparel exports under the QIZ agreement decreased 10.5 percent to USD 418 million. Apparel exports under no claimed program dropped 33 percent to USD 4.8 million. These figures tell another story that garment manufacturers are gradually shifting towards exporting under the FTA, a natural and desirable development of this sector. NOTE: The 2001 FTA addresses bilateral trade in both goods and services, and applies to the entire country. The QIZ initiative applies to manufacturing only. Despite the shift to trade under the FTA, some producers will still continue to favor QIZ which requires a lower level of Jordanian inputs. END NOTE.

Moving to Higher End Products

¶8. (SBU) Another emerging trend is downsizing or closure of factories that have had labor problems or that cannot compete, particularly in low-end garments manufacture. Factories specializing in high-end garments are expanding. According to Sergio Gonzalez, a former buyer for Haggar's and garment manufacturing consultant, this could explain why the volume of Jordanian exports from January-May 2007 decreased 18.1 percent while the value only dropped 7.3 percent -- whatever was lost was low-value or reflected a move to higher-value products.

¶9. (SBU) For example, the American-owned company Century Standard has found a new niche in work uniforms for Cintas that is allowing it to nearly double its 90 percent Jordanian workforce to 700 employees. As a result, Century Standard's exports jumped from USD 4.5 million in the first half of 2006 to USD 5.1 million in the first half of 2007. EAM Maliban Textile also saw a 42 percent increase in its exports to USD 15.7 million, which its CEO Edirisinghe Athulla attributed to a switch to higher value products for an existing customer, Dillard's, and the addition of a new high-end buyer, Land's End.

Biggest Obstacles: Lack of Labor and Inefficiency

¶10. (SBU) Some are attributing the drop in QIZ apparel exports to a cutback in orders from buyers abroad, who have decided to shift purchases to more competitive countries, such as Egypt or China. Athulla told Econoff August 7, however, that buyers have continued to show interest in Jordan, particularly as other foreign currencies have grown stronger. In his view, the real obstacle is the lack of

AMMAN 00003472 003 OF 004

unskilled local labor, noting that about 200-300 of his foreign workers' contracts will end in 2007 and unless he can get replacements, his production would go down about 20 percent. Royal Court Advisor Maher Matalaka also confirmed to Econoffs August 2 that the lack of labor is a primary impediment for garment factories to expand their businesses. NOTE: The Ministry of Labor reported that as of June 30, 2007, 99 factories in the QIZs employed a total of 52,058 individuals, of which 15,175 were Jordanian and 36,883 were foreign. Women, including 9,230 Jordanians, comprised 57 percent the QIZ labor force. END NOTE.

¶11. (SBU) Gonzalez, who has been visiting QIZ factories for a USAID-funded SABEQ competitiveness study on the garment sector (septel), told Econoff and USAID August 8 that most factories seem well-equipped and contained adequate space, but do not yet have the people to grow. He said that the factories can get the contracts, but are having a more difficult time filling orders, especially with new labor policies limiting overtime and the closure of subcontractors due to labor violations. He noted that more emphasis needs to be placed on developing innovative and aggressive local recruitment programs, particularly in rural communities, and implementing more robust training programs. Additionally, he noticed that the majority of factories he visited were operating at about 30-40 percent efficiency. Like Jones NY Social Compliance Auditor Kesava Murali, Gonzalez believes that factories can employ better management practices, incentive pay systems, and standards to enhance employee productivity (Ref A).

¶12. (SBU) Furthermore, although factories have developed well-established relationships with clients, Gonzalez argues that they need to do a better job of selling themselves to new buyers to develop a stronger and more diverse customer base. On the positive side, these relationships and the amount of investment that have already been made in Jordan will help ensure that companies do not "pack up and leave tomorrow." Even if some discontent about labor and the cost

of production still exist, Gonzalez does not think the industry will disappear -- it will just be a question of to what degree it remains.

Comment

¶13. (SBU) After years of overall growth in QIZ exports, many viewed the results of the first half of 2007 as alarming. Although the decline in apparel exports is by no means desirable, it could also reflect a natural period of adjustment to new labor compliance procedures and a move to high-end products. With regards to labor, the garment sector continues to see itself in a Catch 22, whereby the GOJ has been implementing stricter policies on issuing work permits for guest workers, in part to encourage hiring of local labor, and yet trained and efficient local labor is not yet available (Ref B). Many companies seem to want the GOJ to provide them with the local operators, instead of taking on the responsibility themselves of developing more effective local recruitment and training programs and enhancing the productivity of their existing labor force. The SABEQ study on the garment sector and subsequent technical assistance should help identify concrete and practical ways to address some of these problems and increase the global competitiveness of apparel companies in Jordan. Likewise, the World Bank Skills Development Program, the National Training and Employment Project, and the Rehabilitation of Employment Services aim to increase local employment opportunities in the industry.

¶14. (SBU) The drop in apparel exports also highlights the risk of having all of Jordan's export eggs in one garment basket. In collaboration with public and private stakeholders, the USAID-funded SABEQ program is currently helping Jordan to develop a new National Trade Strategy that will address enterprise development and trade enhancement,

AMMAN 00003472 004 OF 004

particularly through diversification.

Visit Amman's Classified Website at
<http://www.state.gov/sgov/p/nea/amman/>
Hale